

Auditor's report

Greater Tzaneen Municipality

30 June 2015



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Greater Tzaneen Municipality
PO Box 24
Tzaneen
0850

30 November 2015

Reference: 02504REG14-16

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Greater Tzaneen Municipality for the year ended 30 June 2015

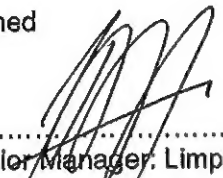
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)]
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



.....
Senior Manager: Limpopo

Enquiries: Lawrence Nevhutalu
Telephone: (015) 283 9338
Fax: (015) 283 9402

Report of the auditor-general to the Limpopo provincial legislature and the council of Greater Tzaneen Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Tzaneen Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue

6. The municipality did not recognise the full amount relating to traffic fines issued during the year under review in accordance with paragraph 9 of IGRAP 1: *Applying the probability test on initial recognition of non-exchange revenue*. Furthermore, I was unable to obtain sufficient appropriate audit evidence for traffic fines issued, as there were no internal controls for the distribution of traffic fine books to officials. I could not confirm whether all traffic fines had been recorded by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from traffic fines stated at R 8 million in the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the effect of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

9. With reference to note 40 to the financial statements, the municipality is the defendant in a claim. The municipality is opposing the claim. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 60 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material losses

11. As disclosed in note 50 to the financial statements, material losses of 68 436 891 units of electricity (17.83%) and (2014: 75 262 387 units 20.39%) were incurred as a result of electricity distribution losses.

Material underspending of the conditional grant

12. As disclosed in note 18, the municipality has materially underspent the budget on conditional grant to the amount of R60 435 514.

Irregular expenditure

13. As disclosed in note 46 to the financial statements, irregular expenditure to the amount of R62 445 004 was incurred in the current year as the municipality procured goods and services without following supply chain management regulations.

Fruitless and wasteful expenditure

14. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure to the amount of R1 320 482 was incurred in the current year as the municipality incurred expenditure that could have been prevented if due care was taken. This is due to interest on late settlement of accounts

Unauthorised expenditure

15. As disclosed in note 44 to the financial statements, unauthorised expenditure to the amount of R25 387 498 was incurred in the current year due to the municipality overspending on their approved budget

Additional matter

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development objective 2: Improve access to sustainable and affordable services on pages xx to xx
 - Development objective 3: Increase financial viability on pages xx to xx

20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the *National Treasury's Framework for managing programme performance information* (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development objectives are as follows:

Reliability of reported performance information

Development objective 2: Improve access to sustainable and affordable services

24. The FMPPI requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 20% of the targets consequently I was unable to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work by the auditee.

Development objective 3: Increase financial viability

25. The FMPPI requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 20% of the targets consequently I was unable to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work by the auditee.

Additional matters

26. I draw attention to the following matters:

Achievement of planned targets

27. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material finding on the reliability of the reported performance information for the selected development objectives reported in paragraph xx of this report.

Unaudited supplementary information

28. The supplementary information set out on pages 66 to 106 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

29. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of cash flow statement, commitments, and contingent liabilities identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving a qualified audit opinion.

31. The 2013-14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
32. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review, reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Audit committee

33. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
34. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by *Municipal planning and performance management regulation* 14(4)(a)(i).
35. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by *Municipal planning and performance management regulation* 14(4)(a)(ii).

Procurement and contract management

36. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
37. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and *Supply Chain Management (SCM) regulations* 44.
38. Persons in the service of the municipality who had a business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e)

Human resource management and compensation

39. Acting municipal manager was appointed for a period of more than six month in contravention of section 54A (2A) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section [65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

42. The condonation of irregular expenditure was not approved by the appropriate relevant authority, as required by sections 1 and 170 of the MFMA.
43. Unauthorised, irregular and fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

Internal control

44. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in a qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

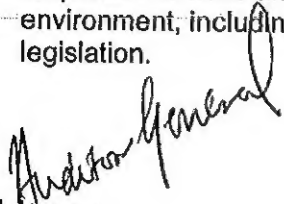
45. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Staff members were not held accountable for repeat findings
46. Effective HR management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
47. The accounting officer did not monitor the implementation of action plans to address internal control deficiencies

Financial and performance management

48. Adjustments were made to the annual financial statements due to a lack of financial monitoring and review.
49. The accounting officer did not monitor controls to prevent late payments to suppliers.
50. Lack of consequence management resulted in unauthorised, irregular as well as fruitless and wasteful expenditure

Governance

51. The audit committee did not review the internal audit reports as a result they did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.



Polokwane

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence